CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 18, 2007

H.R. 24
San Joaquin River Restoration Settlement Act

As introduced on January 4, 2007

SUMMARY

H.R. 24 would implement a judicial settlement between the federal government—specifically the Bureau of Reclamation's Friant Division of the Central Valley Project in California—and a coalition of conservation and fishing groups. The purpose of the settlement is to fully restore the San Joaquin River and to mitigate the impact of water losses on those who have long-term contractual rights and obligations to the Friant system. The bill would authorize and direct the Secretary of the Interior to design and construct channel and structural improvements to the river; modify operations of the Friant Dam; acquire water or water rights; and implement terms of the settlement relating to recapture and reuse of water to minimize water supply disruptions to Friant water users.

CBO estimates that enacting this legislation would increase direct spending by $217 million over the 2008-2017 period. The Joint Committee on Taxation (JCT) estimates that enacting H.R. 24 could increase the issuance of tax-exempt bonds by California and thus reduce federal revenues by $23 million over the 2008-2017 period. Implementing H.R. 24 would also affect discretionary spending, with a cost of an additional $215 million over the 2008-2017 period, assuming appropriation of the amounts authorized by the bill. Some additional spending would occur after 2017 for project construction and operations and maintenance.

H.R. 24 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would benefit state, local, and tribal governments, and any costs they incur would result from complying with conditions for receiving federal assistance.

H.R. 24 would impose a private-sector mandate, as defined in UMRA, if the Secretary of the Interior acquires land from private landowners through eminent domain in order to

implement the settlement agreement. The cost of the mandate would be the fair market value of the property and any expenses incurred by private landowners in transferring that property to the federal government. Based on information from government sources, CBO expects that the cost of the mandate would fall below the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 24 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	17	200	0	0	0	0	0	0	0	0
Estimated Outlays	7	18	20	25	25	50	25	35	7	5
CHANGES IN REVENUES										
Estimated Revenues	0	*	-2	-3	-3	-3	-3	-3	-3	-3
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Estimated Authorization Level	2	2	2	62	32	52	32	42	7	7
Estimated Outlays	2	2	2	52	27	52	27	42	7	2

NOTE: * = revenue loss of less than $500,000.

BACKGROUND

This legislation would implement a court settlement dated September 13, 2006, in the litigation *Natural Resources Defense Council, et al. v Kirk Rogers, et al.* The purpose of the settlement is to fully restore the San Joaquin River and to mitigate the impact of water losses on those who have long-term contractual rights and obligations to the Friant system. Once fully implemented, the settlement should result in the return of naturally reproducing spring and fall runs of Chinook salmon in the river.

Under the settlement agreement, the Bureau of Reclamation's Friant Division would be required to establish interim river flows in 2009. To restore those interim flows, the Bureau would have to improve the infrastructure of the historic river channel. The Bureau would implement the infrastructure improvements in two phases. The first phase is projected to be completed between 2009 and 2011, and the second phase by 2016. According to the public and private parties that have agreed to the settlement, the total cost of those improvements could range from $250 million to $1.1 billion, depending on the features of the project. Assuming that California fully matches discretionary funds authorized in this bill, CBO estimates that the cost of implementing the settlement would total $750 million over the life of the settlement. Of that amount, we expect that the federal share would total $500 million, with federal expenditures of $430 million over the 2008-2017 period and another $70 million in expenditures over the 2018-2026 period.

H.R. 24 would provide two sources of federal funding for those infrastructure improvements. Certain funds currently collected from existing water users could be spent, without further appropriation, for direct investments in the project or to repay project-related debt issued by the state of California under agreements with the Secretary of the Interior. The bill also would authorize the appropriation of up to $250 million for project improvements, contingent on certain matching funds, and another $2 million a year from the Central Valley Project Restoration Fund.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 24 will be enacted in fiscal year 2007 and that the necessary amounts will be appropriated for each fiscal year. CBO estimates that enacting those provisions would increase direct spending by $217 million over the 2008-2017 period. The JCT estimates that enacting the legislation would reduce federal revenues by $23 million over the next 10 years. Assuming appropriation of those amounts necessary to complete the river improvements, CBO estimates that discretionary spending would total $215 million over the 2008-2017 period.

Direct Spending

The primary impact on direct spending under the legislation would stem from the bill's authority for new financing—on behalf of the federal government—to fulfill the government's obligations under the judicial settlement agreement. H.R. 24 would allow the Bureau of Reclamation to spend certain federal collections, without further appropriation, to implement the settlement. CBO estimates that enacting those provisions would increase direct spending by $217 million over the 2008-2017 period.

Under current law, about $9 million is collected annually from the Friant contractors to repay the federal capital investments in the Friant Division. Those contractors are required to pay an additional $8 million a year for habitat restoration, improvement and acquisition, and other fish and wildlife restoration activities in the Central Valley Project area of California. The supplemental payments are deposited into the Central Valley Project Restoration Fund. Spending of the contractor payments is currently subject to appropriation.

Section 9 would deposit the contractor payments, which total about $17 million year, into a new San Joaquin River Restoration Fund (SJRRF), starting in the first fiscal year after the date of enactment and continuing through at least 2026. The Secretary of the Interior would be authorized to spend those funds without further appropriation. In addition, section 9 would authorize the Secretary to enter into agreements with appropriate agencies or subdivisions of the state of California to facilitate the issuance of revenue bonds, federally guaranteed loans, or other financing instruments for the purpose of implementing the settlement agreement. Under the bill, funds in the SJRFF could to be used to repay any bonds or other debt issued by the state under this authority.

CBO expects that the Secretary and the state would use the authority in the bill to issue debt instruments backed by federal collections and use the proceeds to fulfill the federal government's obligations under the settlement agreement. In effect, the state would borrow funds on behalf of the federal government, and as such, this means of financing should be recorded in the budget as federal borrowing.

For this estimate, CBO assumes that the state would issue such debt in 2009 in an amount equal to the net present value of the future stream of income expected to be collected from Friant contractors. Assuming annual payments of $17 million through 2026, we estimate that the bill would authorize the borrowing of about $200 million, which would be spent over the 2009-2017 period. In addition, direct spending under the bill would include use of the $17 million collected in 2008, which also could be spent without further appropriation for activities related to the settlement, including planning and design activities.

Revenues

The Joint Committee on Taxation estimates that, as a result of the legislation, the state of California could issue additional tax-exempt bonds in 2009 and that the consequent reductions in federal revenues would total $23 million over the 2009-2017 period.

Spending Subject to Appropriation

H.R. 24 would authorize the appropriation of up to $250 million to implement the settlement, contingent upon the receipt of matching funds from the state of California. For this estimate, CBO assumes that the state of California would match the federal funds to implement the settlement. The bill also would authorize the appropriation of up to $2 million per year from the Central Valley Project Restoration Fund to implement the settlement. Assuming appropriation of the authorized amounts, CBO estimates that implementing H.R. 24 would cost $215 million over the 2008-2017 period and about $70 million after 2017.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 24 contains no intergovernmental mandates as defined by UMRA. Water restoration and management activities authorized in the bill would benefit state, local, and tribal governments that implement activities to restore wildlife and water flow of the San Joaquin River in the state of California. Any costs that they might incur, including matching funds, would result from complying with conditions of federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 24 would impose a private-sector mandate, as defined in UMRA, if the Secretary of the Interior acquires land from private landowners through eminent domain in order to implement the settlement. The cost of the mandate would be the fair market value of the property and any expenses incurred by private landowners in transferring that property to the federal government. Based on information from government sources, CBO expects the cost of the mandate would fall below the annual threshold established by UMRA for private-sector mandates ($131 million in 2007, adjusted annually for inflation).

In cases where land is acquired through eminent domain, the Secretary of the Interior would have to compensate landowners for the fair market value of the land. In addition, the bill would require that the original land owners get the right of first refusal to repurchase such land if the Secretary determines that it is no longer necessary for implementation of the settlement.

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